A regular meeting of the Pension Committee was held November 9, 2017 at 9:00 a.m. in the Administration Conference Room at Town Hall, 500 Poplar View Parkway.

The following members were present: Dick Gardiner, Gregory Reichert, Mark Krock, Jay Jeffries and Stan Joyner.

Staff present was James Lewellen, Adam Hamric and Pension Attorney Kitty Jungkind. Also present was Susan Fletcher and Ward McBee of First Tennessee Bank.

<u>APPROVAL OF MINUTES</u>

Motion by Mayor Joyner, seconded by Mr. Krock, to approve the minutes of the August 10, 2017 meeting.

ROLL CALL: Gardiner – yes, Reichert – yes, Krock – yes, Jeffries – yes, Joyner – yes. Motion approved.

<u>REVIEW OF THE QUARTERLY INVESTMENT PERFORMANCE OF THE COLLIERVILLE DEFINED BENEFIT PENSION PLAN BY FINANCIAL ADVISORS – FIRST TENNESSEE BANK (Ward McBee and Susan Fletcher)</u>

FIVE FACTOR FRAMEWORK: *General Economic Backdrop* is green; the growth rate of the weekly leading indicators are still in a growth pattern. *Market Trend* is green; the current S&P price versus the 12 month rolling average. *Availability of Credit* is yellow; the Fed is probably going to raise rates one more time next month. *Investor Sentiment* is red and *Valuation* continues to be red.

The market is rich and when things get pricey, expected returns are low. Not much has changed.

ECONOMIC FORECAST: Q3 ended with a 3% GDP, which coupled with Q2 at 3.1% were two nice quarters in a row of at or above 3%. The final quarter of the year is forecast at 3.3%. The forecast for 2017 is 2.6; 2016 ended at 1.8.

It will put us a little over 2.5% for the year at 2.6 forecasted. We ended 2016 at 1.8, so we have had some growth since 2016.

Unemployment ended Q3 at 4.3%. The forecast for the end of 2017 is 4.4%. Forecast for 2018 shows a decrease down to 4.1%. Almost at or near full employment.

Inflation ended at 1.9% in 2016; the forecast for 2017 is 1.4%. The forecast for 2018 is 1.7%. Nothing is showing up in the forecast for inflation.

Recession risk is 0% for 2017; 5% for 2018; and 15% for 2019.

CAPITAL MARKET ASSUMPTIONS: Nothing has changed here.

MARKET VALUE AND PERFORMANCE: 1Q ended at 3.03% versus blended benchmark at 2.78; 1 year is 9.50 versus 10.23; 3 year is 6.20 versus 6.11; 5 year is 7.98 versus 7.87; and inception to date, 10 Year, 3 Month is 5.99.

ASSET ALLOCATION: The target for fixed income is at 40.00 and we are at -2.53, a little underweight.

Equities target is 60.00 and we are over that same weight, 2.53.

Still within range of the IPS Asset Allocation. No changes recommended.

HOLDINGS AND PERFORMANCE: Emerging Markets were added back into the allocation at the end of 2015. Emerging Markets have taken the reins in terms of global returns. Not only Emerging Markets, but International. Growth is still outperforming value; T. Rowe Price Emerging Markets is 10.63 for 1Q, which has been a nice addition back into the portfolio. It has been additive to the returns.

HISTORICAL SUMMARY: Shows contributions and distributions (and the net of the two), net transfers and disbursements. The market value at the end of the first quarter is $65,715,822.

Mr. McBee added that through November 8, the account is up 1.56% and FYTD (the last 5 months through November 8) is up 4.64%.

EXPENSE SUMMARY: Ms. Fletcher said this continues to look good. Mutual fund expense ratio is at 0.10 basis points. She said that from an expense standpoint, fees are very prudent.

Mr. Jeffries asked for questions and received none.

<u>REVIEW OF ACTUARIAL REPORT AS OF JULY 1, 2017 – RICHARD ELLIS, ELLIS & WARD BENEFITS GROUP INC</u>.

<u>Results of Actuarial Valuation as of July 1, 2017</u>

COMPARISON OF VALUATION RESULTS (07-01-16 – 07-01-17): Employees went from 493 to 507; total participants went from 621 to 642; annual compensation for covered employees went from $21,977,675 to $24,504,469.

Actuarial value of assets went from $58,970,551 to $65,412,800. Unfunded actuarial accrued liability went from $5,073,865 to $3,891,813; suggested contribution went from $2,350,384 to $2,522,508; that is less in percentage of pay but it is up in terms of dollar amount because of the larger average salaries and also the number of participants. The percent of pay is at 10.3%.

CHANGE IN ASSETS DURING PLAN YEAR ENDING 6/30/17: The most important number is the approximate rate of return on average invested assets at 9.0%. The market value of assets is $63,788,592. They adjust that a bit for the 5 year gain/losses; they are using 65 for the actuarial value when calculating the contribution required.

FUNDED STATUS OF ACCUMULATED PLAN BENEFITS:
This is a gauge of how the Town is progressing in the funding of the plan. If we the Town were to terminate the plan and pay out all of the liabilities, there is $63,788,592 in assets and the Town would only have to pay out $45,949,883. The Plan is 139% funded on an approved benefit basis.

Mr. Ellis said that he does not see these kind of numbers anywhere. The Plan is extremely well funded.

TREND INFORMATION (from implementation of the Plan in 2007):

Total number of participants has gone from 410 to 642; average age has gone up a bit (replacing retirees with younger employees), covered payroll has gone from an average of 40,878 in 2007 to 48,332 in 2017.

The approximate return on assets is something to watch. The average return for the entire period of the Plan is 4.5%, but if you take out the 2 negative years and just look at the last 8 years, it is about 9.1%. That is what keeps the contribution requirement low.

CHANGES IN NET PENSION LIABILITY – PENSION EXPENSE:

Mr. Ellis explained that this is part of the financial statement under GASB.

He pointed out that if the discount rate of 7.5% was decreased to 6.5%, the net pension liability goes up considerably; it goes from $4 million to $13 million. If the discount rate is increased, it goes down to -$3.6. The discount rate has a significant impact when you are calculating your liabilities.

Mayor Joyner asked if most plans still use the 7.5.

Mr. Ellis stated the Plan's discount rate is tied to TCRS' rate and up until now they have used 7.5. But you are allowed to go plus or minus 50 basis points.

Mr. Ellis added that he is comfortable with 7.5%.

SCHEDULE OF TOWN CONTRIBUTIONS:

This Table compares and shows the Town's contributions for the last 10 years as a percent of payroll. In 2013 it was 14.87% and in 2017 it is down to 12.37%.

ACTUARIAL METHODS AND ASSUMPTIONS:

The RP 2000 Mortality Table has been adjusted. Rates were increased to account for expected mortality improvement.

Mr. Ellis concluded his report by stating that, overall, he likes this Plan as well as any, and it is in great shape.

Mr. Jeffries asked for questions and received none.

Present was Town of Collierville retiree, Dwight Hood, who said that he has been retired for 10 years now and that after listening to the forecast for the next three years, it puts a smile on his face. He expressed his thanks to everyone.

ADJOURNMENT

There being no further business, the Pension Committee adjourned at 9:25 a.m.

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Chairman **Town Clerk**